

CITY OF BAINBRIDGE ISLAND
Kitsap County, Washington
January 1, 1988 Through December 31, 1991

Schedule Of Findings

1. Utility Billing Controls Should Be Improved

The City of Bainbridge Island's utility billing system had the following internal control weaknesses:

- a. The general ledger control account was not reconciled with the subsidiary account receivable balances.
- b. The utility clerk had access to the computerized general ledger posting system including the accounts receivable control account.
- c. The utility clerk had access to the computerized utility system's file maintenance program and the capability to alter utility rates.
- d. Not all activity posted to the general ledger control account was reviewed for completeness and propriety.
- e. The utility clerk's duties included back up cashier. This lack of segregation of duties allowed the utility clerk to perform customer account billing, posting, adjustment, and receipting.
- f. The city did not have a complete detailed list of customer deposits to support deposits on hand.

By not having adequate internal controls, errors and omissions could have occurred and not been detected by management in a timely manner. Many of these internal control weaknesses were caused by software and system security design problems. In addition, the city was aware for some time that the control account was not reconciled with subsidiary account balances and that customer deposits were not supported by a detailed list of customers.

We recommend the following procedures to improve controls over the utility billing system:

- a. Reconcile the general ledger control account with the detail accounts receivable balances on a regular basis.
- b. Restrict the utility clerk's computer system access to functions compatible with the job duties.
- c. Someone independent of the utility system should review all control account posting activity for completeness and propriety.

- d. Change the utility clerk's duties to not include cash receipting.
- e. Investigate all unknown customer utility deposits. Contact the Washington State Department of Revenue regarding reporting and remitting any unclaimed deposits.

2. Cash Receipting Controls Should Be Improved

The City of Bainbridge Island's cash receipting system had the following internal control weaknesses:

- a. The cash receipting software allowed validation of utility stubs, or other documents that act as receipts, without recording the transaction. The software did have a system audit report that detected this activity; however, this report was not reviewed.
- b. The validation machine had an audit tape that printed on carbonless (NCR) paper. However, this tape was of little use because of the following:
 - (1) The mode of payment was not imprinted on tape.
 - (2) The utility stub imprint was not legible because of the thickness of the utility stub.
 - (3) The check endorsement imprinted over the top of the validation imprint.
- c. A locking bank bag was not used. This allowed the courier access to the deposit during transit.
- d. The cashier and the utility clerk had access to the deposit after management had reviewed it.
- e. The utility clerk's duties included back up cashier. This lack of segregation of duties allowed the utility clerk to perform customer account billing, posting, adjustment, and receipting. By not having adequate internal controls, errors and omissions could have occurred and not been detected by management in a timely manner.

Several of the above internal control weaknesses resulted from the cash receipting system the city recently installed. The other weaknesses resulted from placing too much reliance on the new system.

We recommend the following procedures to improve controls over cash receipting:

- a. Management should review the cash receipt system audit report for unauthorized activity.
- b. Contact the software and imprinter manufacturers to correct the internal NCR audit tape weaknesses.
- c. Put the deposit into locking bank bags after management's review. Restrict access to the bank bag keys.
- d. Change the utility clerk's duties to not include cash receipting.

3. Annual Reports Should Be Submitted On Time

The city submitted its 1989 and 1988 annual reports to the State Auditor's Office in December 1990. The 1991 and 1990 annual reports were submitted in March 1992 and October 1993, respectively.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class. Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

Delays in the availability of the financial reports prevents city officials, the public, and other interested parties from obtaining timely information. It also increases audit costs and hinders the efforts of the State Auditor's Office in compiling statistical and financial information for use by the state legislature, the U.S. Census Bureau, and others.

During the preparation of the annual report the city discovered numerous clerical errors in the 1988 financial data. Subsequent revisions by the city delayed the submission of their annual report. All four years' reports were also delayed because of demands on city personnel due to the city's recent annexation of Bainbridge Island.

We recommend the city comply with the reporting requirements noted above by preparing and filing annual reports on time.

4. City Expenditures Should Be For A Public Purpose Only

The city made the following payments:

<u>Vendor</u>	<u>Amount</u>	<u>Date</u>	<u>Purpose</u>
Pleasant Beach Grill	\$62.13	3/6/92	City Electric Reliability Commission presentation dinner. This represents meals purchased for two city officials' spouses and a Puget Power representative's spouse. The city was subsequently reimbursed for the spouses' dinners.
Country Road Gift Shop	\$33.90	11/26/91	Decorations for Harrison Hospital's holiday tree
Pay N' Save	\$17.19	11/26/91	Lights and accessories for Harrison Hospital's holiday tree

Article VII, Section 1, of the Washington State Constitution states in part:

All taxes . . . shall be levied and collected for public purposes only

The city spent public funds on items that had no public purpose.

City officials were unaware that it was not permissible to pay for spouses' meals at the Electric Reliability Commission dinner. City officials felt the decorations for Harrison Hospital's holiday tree were a goodwill gesture.

We recommend the city expend public funds for public purposes only.

5. Municipal Court Accounting Controls Should Be Improved

The City of Bainbridge Island's Municipal Court accounting system had the following internal control weaknesses:

- a. There was an inadequate segregation of duties. Most of the accounting functions in the court were the sole responsibility of the court clerk. Thus, the duties of recording cash receipts and entering citation accountability, payments and credits were inadequately segregated.
- b. There was no periodic management review of court transactions or the court trust bank account. Periodic reviews by management can prevent or detect error and irregularities.
- c. Deposits were not made intact daily.
- d. Payments were deposited without being receipted.
- d. There was no subsidiary ledger of court receivables until last year when the court began using a new accounting system. There is a possibility of older court receivables that may exist but are not on the new system.

By not having adequate internal controls, errors and irregularities could have occurred and not been detected by management in a timely manner.

These internal control weaknesses were caused by the lack of court personnel, and an inadequate computer accounting system. In April of 1993, the city installed the Washington State Office of the Administrator of Courts' Municipal Court Accounting System (DISCUS). This new system should help the city improve some of the weaknesses noted above.

We recommend the city review its overall municipal court accounting procedures, correct the weaknesses noted above and implement an effective system of internal controls designed to adequately account for all court transactions.